

**FINANCIAL STATEMENTS**

**AND**

**REQUIRED SUPPLEMENTAL**

**INFORMATION**

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November 17, 2010

Dennis Madsen, Chair  
Board of Trustees  
Western Washington University  
Bellingham, WA 98225

Dear Mr. Madsen:

We are pleased to submit the Annual Financial Report of Western Washington University. The accounts of the University are maintained in accordance with policies and regulations established by Washington State and its Office of Financial Management. This report has been prepared in accordance with generally accepted accounting principles and following the guidance of the Governmental Accounting Standards Board.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

KPMG LLP, Certified Public Accountants, have issued an unqualified (clean) opinion on the Western Washington University financial statements for the year ended June 30, 2010. This opinion is included in the independent auditor's report.

Management's discussion and analysis, located at the front of the financial section of this report, provides a narrative introduction, overview, and analysis of the basic financial statements. Western Washington University is recognized nationwide as a premier public comprehensive university. Western Washington University is the highest-ranking public, master's-granting university in the Pacific Northwest, according to the 2011 U.S. News & World Report college rankings. Western's national academic reputation, excellent faculty, as well as its prime location, make it an institution "in demand", factors which will continue to help it weather the current economic challenges.

Sincerely,



Bruce Shepard  
President



Richard Van Den Hul  
Vice President for Business and Financial Affairs

**BOARD OF TRUSTEES\***

Dennis Madsen, Chair  
Ralph Munro, Vice Chair  
Betti Fujikado, Secretary  
Ramiro Espinoza, Student Trustee  
Phil Sharpe Jr.  
Peggy Zoro

**ADMINISTRATIVE OFFICERS\***

Bruce Shepard, President  
Catherine Riordan, Provost and Vice President for Academic Affairs  
Richard Van Den Hul, Vice President for Business and Financial Affairs  
Eileen V. Coughlin, Vice President for Student Affairs and Academic Support Services  
Steve Swan, Vice President for University Relations  
Stephanie Bowers, Vice President for University Advancement  
Teresa Mroczkiewicz, Interim Director, Financial Services  
Sally McKechnie, Interim Director, Business Services  
Shonda L. Shipman, Director, Accounting Services

\* As of Independent Auditors' report date there are two vacancies on the Board of Trustees. The University is waiting on the appointment to the Board of Trustees by the Governor.

**Overview of the Financial Statements and Financial Analysis**

The following discussion and analysis provides an overview of the financial position and activities of Western Washington University (the University) for the years ended June 30, 2010 and 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes which follow this section.

**Reporting Entity**

The University is a comprehensive, degree granting public university in the State of Washington. It is governed by a Board of eight Trustees appointed by the Governor. One of the members is a full time student of the University. The University was established in 1893 and currently has approximately 14,000 full time and part time students.

Located on the shores of Bellingham Bay with Mount Baker as its backdrop, Bellingham is the last major city before the Washington coastline meets the Canadian border. The City of Bellingham, which serves as the county seat of Whatcom County, is at the center of a uniquely picturesque area offering a rich variety of recreational, cultural, educational and economic activities.

**Using the Financial Statements**

The University's financial reports include the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, the Statements of Cash Flows and the Notes to the Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. GASB standards require that financial statements include all funds.

**Statements of Net Assets**

The Statements of Net Assets present the financial condition of the University at the end of the last three fiscal years and report all assets and liabilities of the University.

A summarized comparison of the University's assets, liabilities and net assets as of June 30, 2010, 2009 and 2008, follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<i>(Dollars in thousands)</i>		
<b>Assets</b>			
Current assets	\$ 81,794	\$ 80,418	\$ 83,765
Noncurrent assets	34,627	37,433	18,042
Land	12,773	12,773	12,773
Capital assets, net	<u>400,427</u>	<u>371,570</u>	<u>357,619</u>
Total assets	529,621	502,194	472,199
<b>Liabilities</b>			
Current liabilities	36,046	29,881	33,189
Noncurrent liabilities	<u>83,786</u>	<u>86,016</u>	<u>73,648</u>
Total liabilities	<u>119,832</u>	<u>115,897</u>	<u>106,837</u>
<b>Total net assets</b>	<u>\$ 409,789</u>	<u>\$ 386,297</u>	<u>\$ 365,362</u>

**Assets**

Current assets consist primarily of cash and cash equivalents, short term investments, funds held with the State Treasurer, and accounts receivable from students. The \$1.4 million (1.7%) increase in total current assets during fiscal 2010 compared to fiscal 2009 is attributable to holding increased cash and cash equivalents in response to the historically low interest rate environment and an increase in funds held by the Office of the State Treasurer. Current assets decreased by a net \$3.3 million (-4.0%) comparing fiscal 2009 to fiscal 2008 primarily due to larger holdings of cash and cash equivalents (\$8.0 million), a decrease in the short term investments (\$9.9 million) and decreases in interest receivable and accounts receivable (\$1.3 million) as a result of more timely payment of tuition and fee charges.

Noncurrent assets (excluding land and capital assets) decreased \$2.8 million (-7.5%) in fiscal 2010, primarily due to spending 57.7% of the \$14.3 million in Housing and Dining System revenue bonds issued in 2009 (noncurrent restricted cash and cash equivalents) offset by a \$5.1 million (186.2%) increase in the amounts due from the State Treasurer to cover expenditures on the Miller Hall renovation. Noncurrent assets (excluding land and capital assets) increased \$19.4 million (107.5%) in fiscal 2009 over fiscal 2008, as the \$14.3 million Housing and Dining System revenue bonds to renovate the Buchanan Towers residence were issued in June, 2009. The remaining variance is due to the increase in long term investments by \$7.3 million (189.3%) coupled with a decrease in the amount due from the State Treasurer by \$2.2 million (-44.0%), as fewer invoices related to capital projects were in progress at fiscal 2009 year end with the completion of the AIC building.

Growth in net assets over the last three fiscal years is due to the continuation of the University's capital program. Capital assets grew by \$28.9 million (7.8%) comparing fiscal 2010 to fiscal 2009, primarily due to the capitalization of work performed on the Miller Hall renovation and the Buchanan Towers remodel. Capital assets increased \$14.0 million (3.9%) over fiscal 2008 due to the completion of the Academic Instructional Center (AIC) which opened for classes in January 2009.

**Liabilities**

The excess of current assets over current liabilities of \$45.7 million in fiscal 2010 and \$50.5 million in fiscal 2009 reflects the continuing ability of the University to meet its short term obligations with liquid or easily liquidated assets. Current liabilities increased \$6.2 million (20.6%) comparing fiscal 2010 to fiscal 2009 related to higher invoices at year end in construction project activity, including the Miller Hall renovation (\$3.2 million) and the Buchanan Towers renovation (\$1.8 million). Current liabilities decreased \$3.3 million (-10.0%) from fiscal 2008 as outstanding accounts payable invoices declined at fiscal year-end primarily due to the completion of the AIC building. Deferred revenues increased \$698 thousand (14.8 %) comparing fiscal 2010 to fiscal 2009 due to an increase of 14.0% in undergraduate summer tuition rates, an increase in summer 2010 enrollment of over 1,000 students and an increase in summer 2010 faculty led travel courses that carry higher fees. This category decreased \$336 thousand (-6.7%) comparing fiscal 2009 to fiscal 2008 due to lower enrollments in Extended Education and Summer Programs. The current portion of bonds and notes payable increased \$411 thousand (13.4%) comparing fiscal 2010 to fiscal 2009 as principal payments are due on the 2009 Housing and Dining bond issue during fiscal 2011. This category increased slightly by \$112 thousand (3.8%) comparing fiscal 2009 to fiscal 2008 due to the addition of two State Certificates of Participation to fund equipment purchases in Athletics and Administrative Computing Services.

Long term liabilities decreased by \$2.2 million (-2.6%) comparing fiscal 2010 to fiscal 2009 due to the retirement of \$3.2 million in bonds and notes payable, offset by an increase of \$923 thousand to the unfunded net pension obligation to certain state employees based on the State Actuarial valuation of the plan. Long term liabilities increased \$12.4 million (16.8%) over fiscal 2008 due to the issuance of \$14.3 million in revenue bonds by the Housing and Dining System to remodel the Buchanan Towers residence facility and an increase of \$866 thousand in the net pension obligation due to an updated State actuarial valuation. These increases are partially offset by principal payments on outstanding debt.

**Net Assets**

The difference between total assets and total liabilities is net assets, or equity. The change in net assets measures whether the overall financial condition has improved or deteriorated during the year. Net assets are reported in the following categories:

*Invested in Capital Assets (net of related debt)* – The University's total investments in property, plant equipment, and infrastructure, net of accumulated depreciation and outstanding debt obligations related to those capital assets.

**Restricted Net Assets:**

- Nonexpendable net assets consists of funds on which the donor or other external party has imposed the restriction that the corpus is not available for expenditures but for investment purposes only.
- Expendable net assets are resources which the University is legally or contractually obligated to spend in accordance with time or purpose restrictions placed upon them by donors or other external parties.

*Unrestricted Net Assets* – All remaining funds available to the institution for any purpose, although these net assets are often internally designated for specific purposes.

The University's net assets as of June 30, 2010, 2009 and 2008 are summarized as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<i>(Dollars in thousands)</i>		
<b>Net Assets</b>			
Invested in capital assets, net of related debt	\$ 336,630	\$ 312,263	\$ 294,757
Restricted:			
Nonexpendable	4,623	4,149	4,254
Expendable	26,321	23,683	23,794
Unrestricted	<u>42,215</u>	<u>46,202</u>	<u>42,557</u>
Total net assets	<u>\$ 409,789</u>	<u>\$ 386,297</u>	<u>\$ 365,362</u>

Invested in capital assets, net of related debt increased \$24.4 million (7.8%) comparing fiscal 2010 to fiscal 2009 primarily due to the increase in Construction in Progress for the Miller Hall and Buchanan Towers renovations, offset by the change in long term debt. Net investment in capital assets increased \$17.5 million (5.9%) over fiscal 2008 primarily due to the final costs incurred to complete the AIC building and the Ridgeway Gamma residence facility renovation.

Restricted nonexpendable net assets include donations and matching State contributions for the purpose of establishing distinguished professorships and graduate fellowships. During fiscal 2010, \$50 thousand was received to establish a new graduate fellowship compared to the receipt of \$550 thousand during fiscal 2009. When combined with investment gains, the net increase in restricted nonexpendable net assets was \$474 thousand (11.4%) compared to a net decrease of \$105 thousand (-2.5%) during fiscal 2009 due to investment losses.

Restricted expendable net assets increased \$2.6 million (11.1 %) comparing fiscal 2010 to fiscal 2009 due to an increase in funds held by the State Treasurer. The State Permanent Fund represents the University's share of net earnings of the Normal School Permanent Fund and tuition distributions, reduced by expenditures for capital projects. In addition, reserves were set aside for renewals and replacements in the Housing and Dining System and the Wade King Student Recreation Center as required by bond covenants. When comparing fiscal 2009 to fiscal 2008, there was decrease of \$111 thousand (-0.5%) due increases in grant and student loan funds offset by unamortized bond costs for the 2009 Housing & Dining bond issue.

Unrestricted net assets decreased by \$4.0 million (-8.6%) in fiscal 2010, compared to an increase of \$3.6 million (8.6%) in fiscal 2009 over fiscal 2008. The fiscal 2010 decrease is attributable to using unrestricted reserve funds to compensate for reduced state appropriations. The increase in fiscal 2009 is a result of strong performance by the University's auxiliary enterprises which added to their reserves, support for new programs from the State, tuition increases and higher enrollment figures.

**Capital Improvements and Related Debt**

During fiscals 2010 and 2009, \$40.1 million and \$21.7 million (excluding library materials and equipment) were expended on capital improvements, compared to \$48.7 million in fiscal 2008. Of the \$40.1 million in capital improvements, \$18.2 million was expended on the Miller Hall building remodel, \$9.3 million on the Buchanan Towers renovation, \$3.9 million on the Chemistry Building addition, \$1.2 million on the Fairhaven Fire Sprinkler project, and \$972 thousand on the Haggard Hall/Wilson Library renovation. In fiscal 2009, \$21.7 million (excluding library materials and equipment) was expended on capital improvements; \$5.4 million was expended on the completions of the AIC building, \$5.7 million on projects by the Housing and Dining System and \$4.2 million on the Miller Hall building remodel.

Specific projects completed or underway in fiscal 2010 include:

**Miller Hall Renovation.** Due to the historical significance and its prominent location in the heart of campus, Miller Hall was selected to undergo a major renovation beginning in the 2009-2011 biennium. The project will provide general University classrooms, computer labs, instructional space, and support facilities for the Woodring College of Education and the Department of Modern and Classical Languages.

**Chemistry Building Addition.** The addition of 4,300 square feet will provide additional chemistry and biology research and instructional space recognizing the collaborative nature of chemistry and biology research. Construction began in June 2009 with substantial completion scheduled for fiscal 2011.

**Haggard Hall/Wilson Library Renovation.** This project consolidates all offices under Academic Technology User Services (ATUS) into updated facilities in Haggard Hall. ATUS Multimedia and Web Development and Video Services staff will join other ATUS functions that moved into Haggard Hall last year during Phase 1. Phase 2 also includes a video production studio and video recording rooms. Substantial completion is scheduled for early August 2010.

In fiscal 2009, total long term debt for financing capital assets increased by \$11.5 million (15.8%) to \$84.2 million. The increase includes a \$14.3 million dollar revenue bond issue by the Housing and Dining System in June 2009. The bond issue will fund a remodel of the Buchanan Towers residence facility on campus and the addition of 105 beds.

**Statement of Revenues, Expenses and Changes in Net Assets**

The Statements of Revenues, Expenses and Changes in Net Assets present the University's results of operations and nonoperating items that result in the changes in net assets for the year. In accordance with GASB reporting principles, revenues and expenses are classified as operating or nonoperating.

A condensed comparison of the University's revenues, expenses and changes in net assets for the years ended June 30, 2010, 2009 and 2008 follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<i>(Dollars in thousands)</i>		
Operating revenues	\$ 153,268	\$ 148,913	\$ 143,282
Operating expenses	<u>237,689</u>	<u>232,561</u>	<u>226,464</u>
Operating loss	(84,421)	(83,648)	(83,182)
State appropriations revenue	64,621	78,535	75,418
Other nonoperating revenues	15,774	12,566	12,787
Nonoperating expenses	<u>(4,156)</u>	<u>(4,470)</u>	<u>(4,276)</u>
(Loss) income before other revenues	(8,182)	2,983	747
Other revenues	<u>31,674</u>	<u>17,952</u>	<u>46,985</u>
Increase in net assets	23,492	20,935	47,732
Net assets, beginning of year	<u>386,297</u>	<u>365,362</u>	<u>317,630</u>
Net assets, end of year	<u>\$ 409,789</u>	<u>\$ 386,297</u>	<u>\$ 365,362</u>



**Primary Funding Sources**

The University relies primarily on student tuition and fees and state appropriations as revenue sources to support operations. Tuition revenue, net of scholarship allowances, has continued to grow, increasing \$6.1 million (8.3%) and \$4.6 million (6.6%) in fiscal 2010 and fiscal 2009, respectively.

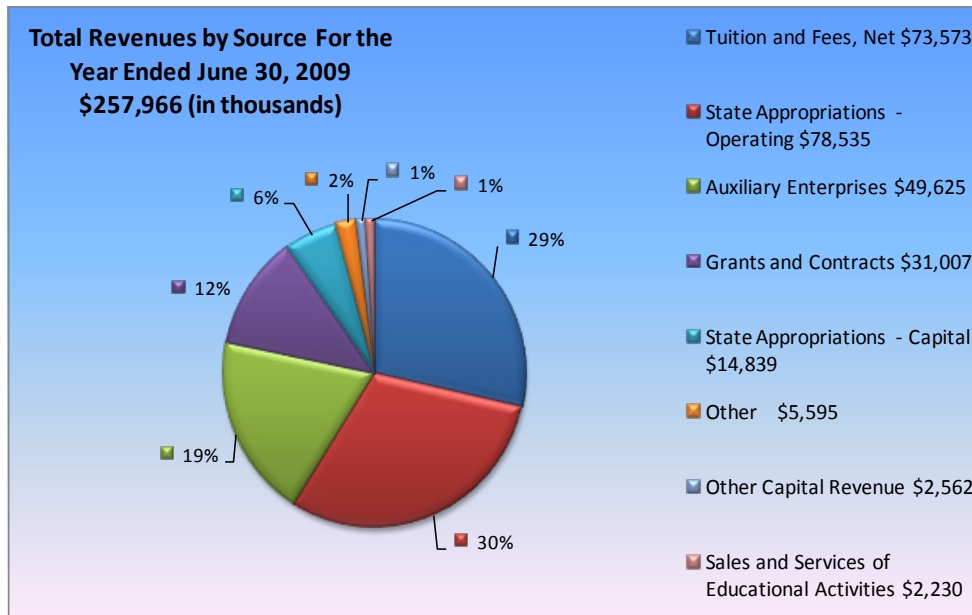
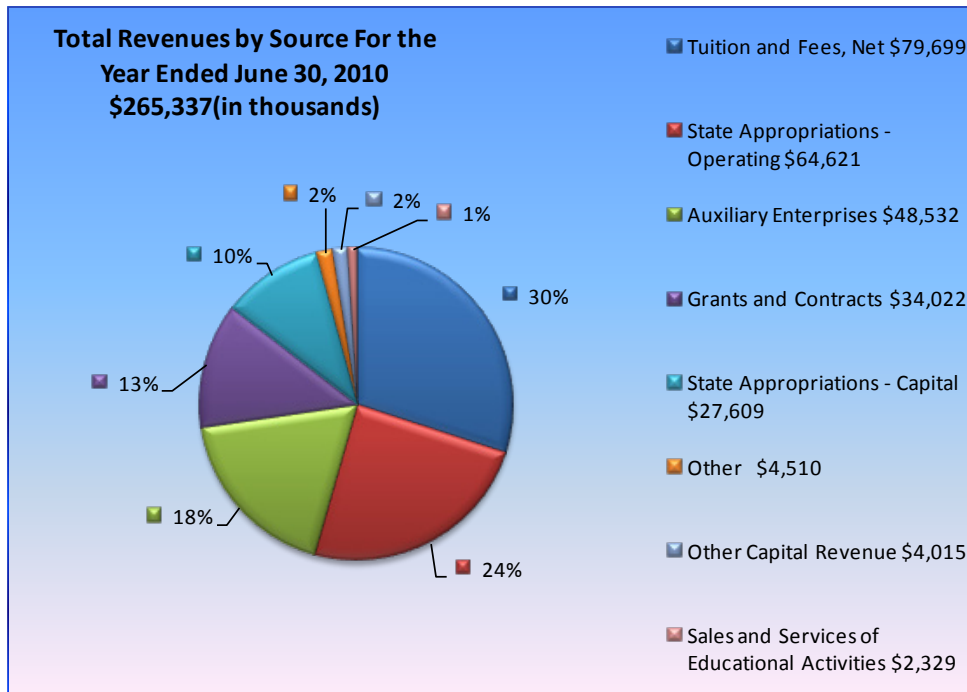
The Washington State Legislature provides the Board of Trustees with tuition setting authority for all student categories at the University: resident undergraduate, non-resident undergraduate, resident graduate, and non-resident graduate. The University is free to set tuition at any level in the latter three categories; the Legislature retains the authority to cap undergraduate resident tuition increases. Tuition increased 14.0% during fiscal 2010 compared to an increase of 5.0% during both fiscal 2009 and fiscal 2008, with enrollment increasing to an average annual headcount of 13,300 in fiscal 2010, compared to 13,240 students in fiscal 2009 and 13,006 in fiscal 2008.

During fiscal 2010, state appropriations used for operations declined by \$13.9 million (-17.7 %) compared to an increase of \$3.1 million (4.1%) in fiscal 2009. The majority of the decrease in fiscal 2010 state appropriations is due to budget challenges at the state level that resulted in a decrease in state funding of \$12.6 million combined with a decrease from the prior year of \$1.3 million in capital appropriation funds that are used to support operations as these expenditures are below the University's capitalization threshold. The appropriation increase in fiscal 2009 includes State support for an additional 153 full-time equivalent (FTE) student enrollments. The University's state supported enrollments (FTE) are 11,373 for fiscal 2010; actual average FTE was 12,475, these additional FTE are not supported by State dollars.

Capital appropriations are recognized as revenue when expenditures are incurred on capital projects and the University is entitled to receive the cash. This revenue source increased \$12.8 million (86.1%) during fiscal 2010 compared to fiscal 2009 primarily due to funds received to fund the Miller Hall renovation. The decrease of \$29.4 million (-66.5%) in fiscal 2009 over fiscal 2008 relates to the completion of the AIC building, for which cash had been drawn and recognized as revenue in fiscal 2008. No significant new projects were started during fiscal 2009.

Other capital revenue is the revenue earned from the State of Washington Normal School Permanent Fund. The increase of \$1.5 million (56.7%) in fiscal 2010 compared to fiscal 2009 is due to additional funds held by the State Treasurer in the Normal School Permanent Fund. When comparing fiscal 2009 to fiscal 2008, the decrease of \$144 thousand (-5.3%) is due to reduced investment earnings from the State Treasurer.

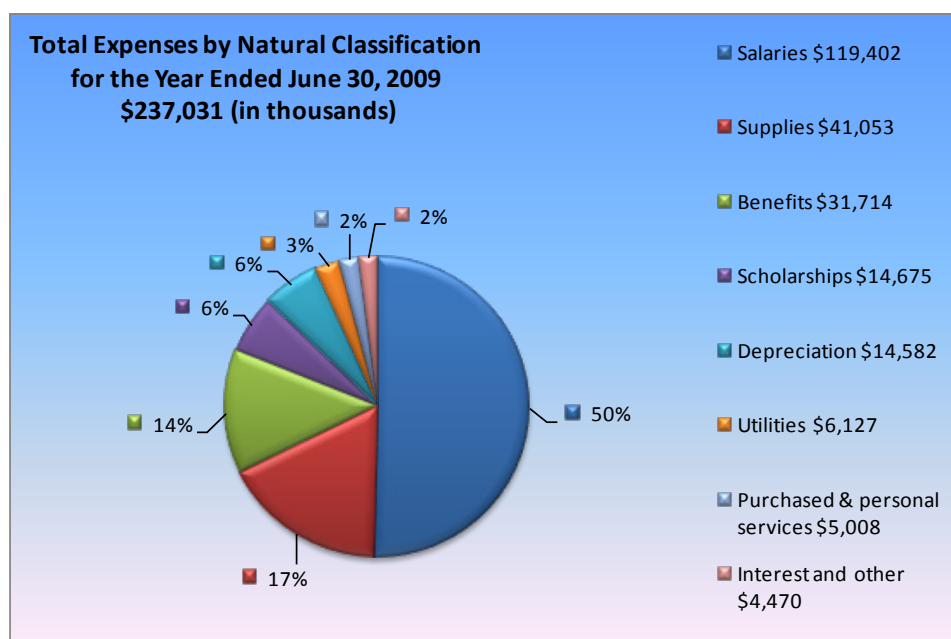
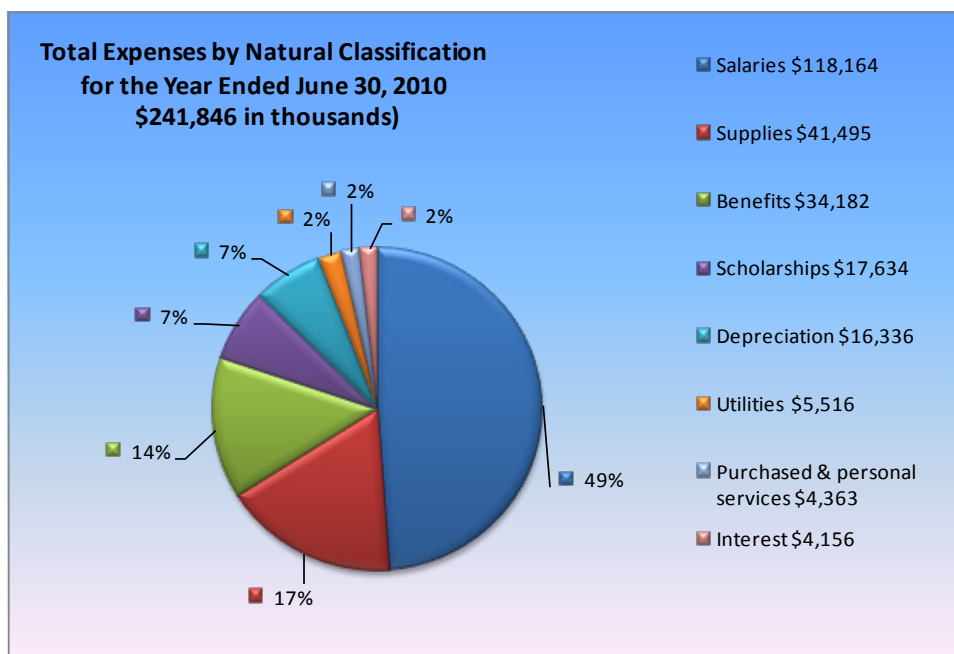
The following graphs illustrate revenues by source for the years ended June 30, 2010 and 2009:



The University's operating expenses increased \$5.1 million (2.2%) in fiscal 2010 and \$6.1 million (2.7%) in fiscal 2009 compared to fiscal 2008. A significant portion of the fiscal 2010 increase relates to benefits expense, which increased \$2.5 million (7.8%) over fiscal 2009 due to a \$184 per month increase in the employer cost for the state benefits package. The majority of the increase in fiscal 2009 is related to salaries and wages, which increased approximately 4.3% in fiscal 2009. Classified, professional staff and faculty received salary adjustments of 2.0%, along with a one-time bonus of 4% for professional staff and faculty in fiscal 2009. No salary increases were given during fiscal 2010 other than longevity pay increases.

Scholarships and fellowships expense increased \$3.0 million (20.2%) comparing fiscal 2010 to fiscal 2009 primarily due to an increase of \$3.8 million (49.6%) in Pell Grants to assist in funding students' tuition. Scholarships and fellowships expense changed slightly (\$148 thousand) comparing fiscal 2009 to fiscal 2008. Supplies and materials and purchased and personal services decreased slightly (\$204 thousand) between fiscal 2010 and fiscal 2009 compared to an increase of \$1.9 million (4.3%) comparing fiscal 2009 to fiscal 2008. The increase in fiscal 2009 was due to the purchase of non-capitalized furnishings and equipment necessary for the AIC building as well as additional repairs and maintenance projects on campus during fiscal 2009. Depreciation expense increased \$1.8 million (12.0%) over fiscal 2009 and \$943 thousand (6.9%) comparing fiscal 2009 to fiscal 2008 as additional capital assets were completed and depreciated.

The following graphs illustrate expenses by natural classification for the years ended June 30, 2010 and 2009:



**Operating Loss**

The University's operating loss of \$84.4 million in fiscal 2010 was an increase of \$773 thousand (0.9 %) from fiscal 2009 and a \$466 thousand (0.6%) increase comparing fiscal 2009 to fiscal 2008. Overall operating revenues increased \$4.4 million (2.9%) during fiscal 2010 and \$5.6 million (3.9%) comparing fiscal 2009 to fiscal 2008 while operating expenditures increased in fiscals 2010 and 2009 by \$5.1 million (2.2%) and \$6.1 million (2.7%), respectively.

GASB standards require that State appropriations and Federal Pell grants are classified as nonoperating revenues, thereby creating the significant operating loss. If these revenues were classified as operating, the operating loss would be \$8.3 million in fiscal 2010 and the operating income would have been \$2.5 million in fiscal 2009.

**Economic Factors That Will Affect the Future**

During the next biennium, State support for operations, which in past decades has been as high as 70% per year, will fall down to a biennial average of 45.5%. The University's 2009-2011 biennial operating budget includes a 29% reduction in State appropriations (\$44 million), forcing the University to eliminate open and filled positions, reduce department budgets, increase class size, and reduce the number of class sections. No degree programs were eliminated in fiscal 2010 or fiscal 2011, and 2008-2009 enrollment levels will be maintained.

In response to the operating budget shortfall, the University increased annual tuition 14.0%, received \$8.9 million in one-time Federal stimulus funds during fiscal 2010, and temporarily increased reliance on University reserve funds for fiscal 2010. Protecting core academic commitments was established early in the budget process as the foremost guiding principle. Reductions in academic programs are, on average, less than cuts in other areas: approximately 5.0% for academic programs compared with 7-10.0% in non-academic areas for fiscal 2011.

The 2009-2011 operating budget includes tuition increases of 14.0% per year for the biennium, an increase of \$600 per year for resident undergraduate students. The University did not increase non-resident or graduate tuition rates. Increases in State and Federal financial aid and the expansion of Federal education tax credits are available to students and can be used to offset the tuition increase. Further position eliminations are pending for fiscal 2011. The majority of these cuts were from vacant positions. Approximately 83.0% of the operating budget is committed to compensation related expenditures.

The Board of Trustees  
Western Washington University

We have audited the accompanying financial statements of Western Washington University and its discretely presented component unit as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Western Washington University Foundation, a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the above component unit, are based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinions.

As discussed in note 1, the financial statements of Western Washington University are intended to present the financial position, and the changes in financial position, and, where appropriate, cash flows of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of Washington that is attributable to the transactions of Western Washington University. They do not purport to, and do not, present fairly the financial position of the State of Washington as of June 30, 2010 and 2009, the changes in its financial position, or, where appropriate, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material aspects, the financial position of Western Washington University and of its discretely presented component unit as of June 30, 2010 and 2009, and the changes in its financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 5 through 12 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**KPMG LLP**

Seattle, Washington  
November 15, 2010

<b>Assets</b>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents (Note 3)	\$ 50,178,923	\$36,433,542
Restricted cash and cash equivalents (Note 3)	430	15,578
Investments (Note 4)	18,330,634	31,251,253
Funds with State Treasurer (Note 5)	7,716,564	6,343,536
Interest receivable	812,792	1,272,563
Accounts receivable, net (Note 6)	2,981,108	3,297,361
Prepaid expenses	512,721	307,901
Inventories (Note 8)	<u>1,261,289</u>	<u>1,495,819</u>
Total current assets	81,794,461	80,417,553
Noncurrent assets:		
Restricted cash and cash equivalents (Note 3)	6,950,440	14,798,500
Restricted investments (Note 4)	7,761,616	7,465,848
Investments (Note 4)	3,372,253	3,742,442
Due from State Treasurer	7,902,379	2,760,797
Student loans receivable, net (Note 7)	7,692,178	7,620,890
Land (Note 10)	12,772,593	12,772,593
Capital assets, net (Note 10)	400,427,233	371,570,424
Other assets (Note 1)	<u>947,644</u>	<u>1,045,416</u>
Total noncurrent assets	<u>447,826,336</u>	<u>421,776,910</u>
Total assets	<u>529,620,797</u>	<u>502,194,463</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	16,540,440	11,540,473
Deposits payable	2,355,911	2,346,015
Deferred revenues	5,402,277	4,704,688
Compensated absences (Note 11)	7,892,235	7,891,789
Current portion of bonds and notes payable (Notes 12,13,15)	3,480,216	3,069,333
Current portion of net pension obligations (Note 15,19)	195,000	195,000
Deposits held in custody for others	<u>180,371</u>	<u>133,395</u>
Total current liabilities	36,046,450	29,880,693
Noncurrent liabilities:		
Long term portion of bonds and notes payable (Note 12, 13,15)	81,025,590	84,179,833
Long term net pension obligations (Note 15,19)	<u>2,759,864</u>	<u>1,836,738</u>
Total Liabilities	<u>119,831,904</u>	<u>115,897,264</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	336,630,060	312,262,833
Restricted for:		
Nonexpendable: scholarships and professorships	4,623,294	4,149,394
Expendable:		
Instruction and research	2,469,590	3,275,404
Loans	12,155,933	11,409,378
Capital Projects	11,694,956	8,998,139
Unrestricted	<u>42,215,060</u>	<u>46,202,051</u>
Total net assets	<u>\$409,788,893</u>	<u>\$386,297,199</u>

**STATEMENTS OF FINANCIAL POSITION**
*For the years ended June 30, 2010 and 2009*

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Cash and cash equivalents	<u>\$1,490,178</u>	<u>\$1,122,334</u>
Investments:		
Operating investment pool	7,326,702	6,095,450
Endowment investment pool		
Externally managed investments	27,451,008	23,271,538
Externally managed investments, held for		
Northwest Indian College Foundation	962,809	921,126
Real estate held for investment, net	2,407,800	2,286,900
Annuity and life income investments	4,158,764	3,840,843
Other	<u>458,757</u>	<u>312,757</u>
Total investments	<u>42,765,840</u>	<u>36,728,614</u>
Receivables:		
Promises to give, net	2,696,403	2,896,255
Other	<u>327,611</u>	<u>8,682</u>
Total receivables	3,024,014	2,904,937
Other assets	<u>28,891</u>	<u>21,968</u>
Total assets	<u>47,308,923</u>	<u>40,777,853</u>
 <b>Liabilities</b>		
Accounts payable	112,995	83,050
Due to Western Washington University	121,163	263,453
Annuity and life income obligations	1,304,331	1,344,420
Indian College Foundation	<u>962,809</u>	<u>921,126</u>
Total liabilities	<u>2,501,298</u>	<u>2,612,049</u>
 <b>Net Assets</b>		
Unrestricted	9,846,966	7,524,501
Temporarily restricted	13,392,949	11,161,966
Permanently restricted	<u>21,567,710</u>	<u>19,479,337</u>
Total net assets	<u>44,807,625</u>	<u>38,165,804</u>
 Total Liabilities and Net Assets	<u>\$47,308,923</u>	<u>\$40,777,853</u>

	<u>2010</u>	<u>2009</u>
<b>Operating Revenues</b>		
Student tuition and fees	\$ 94,533,107	\$86,555,613
Less scholarship allowances	<u>(14,833,867)</u>	<u>(12,982,879)</u>
Net student tuition and fees	79,699,240	73,572,734
Federal grants and contracts	6,639,781	8,338,523
State and local grants and contracts	13,953,989	13,257,130
Nongovernmental grants and contracts	1,969,470	1,752,564
Sales and services of educational activities	2,328,595	2,229,928
Interest earned on loans to students	144,792	136,800
Auxiliary enterprises	52,647,114	53,481,768
Less scholarship allowances	<u>(4,115,218)</u>	<u>(3,856,618)</u>
Net auxiliary enterprises	<u>48,531,896</u>	<u>49,625,150</u>
Total operating revenues	153,267,763	148,912,829
<b>Operating Expenses</b>		
Salaries and wages	118,163,753	119,402,233
Benefits	34,181,520	31,713,625
Scholarships and fellowships	17,634,179	14,675,348
Utilities	5,515,941	6,126,735
Supplies and materials	41,494,644	41,053,047
Purchased and personal services	4,362,892	5,008,483
Depreciation	<u>16,336,531</u>	<u>14,581,784</u>
Total operating expenses	<u>237,689,460</u>	<u>232,561,255</u>
Operating loss	(84,421,697)	(83,648,426)
<b>Nonoperating Revenues (Expenses)</b>		
State appropriations	64,621,417	78,535,426
Federal Pell grant revenue	11,458,908	7,658,503
Investment income	3,782,627	4,706,526
Interest on indebtedness	(4,156,297)	(3,491,660)
Gain (loss) on endowments	516,960	(978,004)
Nonoperating rental property income	<u>15,490</u>	<u>201,443</u>
Net nonoperating revenues	<u>76,239,105</u>	<u>86,632,234</u>
(Loss) income before other revenues	(8,182,592)	2,983,808
<b>Other Revenues</b>		
Capital appropriations	27,609,379	14,839,312
Other capital revenue	4,014,907	2,562,413
Gifts to permanent endowments	<u>50,000</u>	<u>550,000</u>
Total other revenues	31,674,286	17,951,725
Increase in net assets	23,491,694	20,935,533
Net assets, beginning of year	<u>386,297,199</u>	<u>365,361,666</u>
Net assets, end of year	<u>\$409,788,893</u>	<u>\$386,297,199</u>



	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010</u>
<b>Support and Revenue</b>				
Contributions, net of allowance for uncollectible promises to give	\$373,327	\$3,238,045	\$1,765,421	\$5,376,793
Services and facilities provided by Western Washington University	2,617,671	-	-	\$2,617,671
Interest and dividends	551,648	420,343	1,002	\$972,993
Net realized gains (losses) on investments	1,227	(32,638)	4	(\$31,407)
Net unrealized gains (losses) on investments	1,926,731	2,028,039	5,143	\$3,959,913
Fund raising events and other	54,716	414,474	300,053	\$769,243
Total support and revenue before net assets released from restrictions	5,525,320	6,068,263	2,071,623	13,665,206
Net assets released from restrictions	3,663,167	(3,663,167)	-	-
Change in restrictions	(79,651)	62,901	16,750	-
Total support and revenue	<u>9,108,836</u>	<u>2,467,997</u>	<u>2,088,373</u>	<u>13,665,206</u>
<b>Expenses and Change in Valuation of Annuity Obligations</b>				
Program services and grants	3,700,171	-	-	3,700,171
Management and general - WWU in-kind	1,268,858	-	-	1,268,858
Management and general - other	206,974	-	-	206,974
Fund raising - WWU in-kind	1,348,813	-	-	1,348,813
Fund raising	261,243	-	-	261,243
Total expenses	6,786,059	-	-	6,786,059
Change in valuation of annuity obligations	312	237,014	-	237,326
Total expenses and change in valuation of annuity obligations	<u>6,786,371</u>	<u>237,014</u>	<u>-</u>	<u>7,023,385</u>
<b>Change in Net Assets</b>	2,322,465	2,230,983	2,088,373	6,641,821
<b>Net Assets, beginning of year</b>	7,524,501	11,161,966	19,479,337	38,165,804
<b>Net Assets, end of year</b>	<u>\$9,846,966</u>	<u>\$13,392,949</u>	<u>\$21,567,710</u>	<u>\$44,807,625</u>

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**
*For the year ended June 30, 2009*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009</u>
<b>Support and Revenue</b>				
Contributions, net of allowance for uncollectible promises to give	\$645,753	\$2,638,127	\$1,368,833	\$4,652,713
Services and facilities provided by Western Washington University	2,908,714	-	-	2,908,714
Interest and dividends	363,505	584,939	-	948,444
Net realized gains (losses) on investments	459	(54,123)	-	(53,664)
Net unrealized gains (losses) on investments	(3,021,043)	(3,332,442)	-	(6,353,485)
Gain (loss) on sales of assets	(180,567)	-	-	(180,567)
Fund raising events and other	33,241	423,820	434	457,495
Total support and revenue before net assets released from restrictions	750,062	260,321	1,369,267	2,379,650
Net assets released from restrictions	4,200,414	(4,200,427)	-	(13)
Change in restrictions	(883,385)	(239,412)	1,122,797	-
Total support and revenue	<u>4,067,091</u>	<u>(4,179,518)</u>	<u>2,492,064</u>	<u>2,379,637</u>
<b>Expenses and Change in Valuation of Annuity Obligations</b>				
Program services and grants	4,420,726	-	-	4,420,726
Management and general - WWU in-kind	1,451,104	-	-	1,451,104
Management and general - other	235,249	-	-	235,249
Fund raising - WWU in-kind	1,457,610	-	-	1,457,610
Fund raising	334,124	-	-	334,124
Total expenses	7,898,813	-	-	7,898,813
Change in valuation of annuity obligations	-	(99,386)	-	(99,386)
Total expenses and change in valuation of annuity obligations	7,898,813	(99,386)	-	7,799,427
<b>Change in Net Assets</b>	(3,831,722)	(4,080,132)	2,492,064	(5,419,790)
<b>Net Assets, beginning of year</b>	11,356,223	15,242,098	16,987,273	43,585,594
<b>Net Assets, end of year</b>	<u>\$7,524,501</u>	<u>\$11,161,966</u>	<u>\$19,479,337</u>	<u>\$38,165,804</u>

	<u>2010</u>	<u>2009</u>
<b>Cash Flows from Operating Activities</b>		
Tuition and fees	\$80,375,582	\$73,479,384
Grants and contracts	22,846,670	23,782,327
Payments to vendors	(68,667,916)	(66,934,791)
Payments to employees for salaries and benefits	(151,671,022)	(149,723,207)
Loans issued to students	(1,328,887)	(790,086)
Collection of loans to students	1,306,216	1,197,888
Sales of auxiliary enterprises	48,593,026	49,667,455
Sales and services of educational activities	2,303,487	2,163,680
Interest received on loans to students	144,792	136,800
Net cash used by operating activities	<u>(66,098,052)</u>	<u>(67,020,550)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	64,621,417	78,535,426
Direct Lending proceeds	60,938,017	52,587,345
Direct Lending disbursements	(60,927,005)	(52,732,163)
Federal Pell grant receipts	11,458,908	7,658,503
Gifts to permanent endowments	50,000	550,000
Net cash provided by noncapital financing activities	<u>76,141,337</u>	<u>86,599,111</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(19,890,897)	(43,796,559)
Net proceeds from sales of investments	33,402,898	45,396,988
Interest received on investments	4,198,096	5,387,840
Net cash provided by investing activities	<u>17,710,097</u>	<u>6,988,269</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from capital debt	150,000	14,368,652
Interest earned on bond proceeds	44,302	-
Capital appropriations	22,467,797	17,010,176
Other capital revenue	2,594,365	2,367,826
Proceeds from disposal of capital assets	28,657	57,496
Purchases of capital assets	(40,259,571)	(31,533,887)
Principal paid on capital debt	(3,069,460)	(2,957,603)
Interest paid on capital debt	(3,842,789)	(3,613,559)
Other activities	15,490	201,443
Net cash used by capital and related financing activities	<u>(21,871,209)</u>	<u>(4,099,456)</u>
Net increase in cash and cash equivalents	5,882,173	22,467,374
Cash and cash equivalents, beginning of year	<u>51,247,620</u>	<u>28,780,246</u>
Cash and cash equivalents, end of year	<u>\$57,129,793</u>	<u>\$51,247,620</u>

**Reconciliation of Operating Loss to Net Cash Used by Operating Activities**

	<u>2010</u>	<u>2009</u>
Operating loss	(\$84,421,697)	(\$83,648,426)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	16,336,531	14,581,784
Amortization of bond issuance cost	176,100	203,319
Gain on disposal of fixed assets	(15,291)	(7,967)
Changes in assets and liabilities:		
Funds with the State Treasurer	47,514	761,135
Accounts receivable	316,253	614,933
Student loans receivable	(71,288)	334,660
Inventories	234,530	(227,107)
Prepaid expenses	(204,820)	(196,557)
Accounts payable and accrued expenses	(162,905)	(448,393)
Deferred revenue	697,589	(335,771)
Student and other deposits	9,896	50,088
Deposits held in custody	35,964	68,676
Compensated absences	446	265,848
Net pension obligation expense	923,126	963,228
Net cash used by operating activities	<u>(\$66,098,052)</u>	<u>(\$67,020,550)</u>
Supplemental disclosure of cash flow information		
Acquisition of capital assets through accounts payable	<u>\$8,187,280</u>	<u>\$3,240,146</u>

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Financial Reporting Entity

Western Washington University (the University) is a comprehensive, degree granting public university in the State of Washington. It is governed by a Board of eight Trustees appointed by the Governor. These financial statements summarize all the fund types of the University including agency funds.

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government, as well as its component unit, the Western Washington University Foundation (the Foundation).

The Foundation is a legally separate, tax-exempt entity. The Foundation acts primarily as a fund raising organization to supplement the resources that are available to the University in support of its programs. The Board of Directors is self-perpetuating and consists of 31 members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of the resources or income the Foundation holds and invests is restricted for the activities of the University by the donors. The Foundation's activity is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation reports its financial results under Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 958-605, *Revenue Recognition*, and ASC 958-205, *Presentation of Financial Statements*.

As such, certain revenue recognition criteria and presentation features are different from GASB. No modifications have been made to the Foundation's financial information in the University's financial statements for these differences; however significant note disclosures (see Note 2) to the Foundation's financial statements have been incorporated into the University's notes to the financial statements.

The Foundation's financial statements can be obtained by contacting the Foundation at (360) 650-3408.

Financial Statement Presentation

The financial statements are presented in accordance with generally accepted accounting principles and following the guidance given by GASB.

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All intra-agency transactions have been eliminated. The University has elected not to apply any FASB pronouncements issued after November 30, 1989.

New Accounting Pronouncements

On July 1, 2008, the University adopted GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations". This pronouncement includes provisions for recognition and disclosure of estimated costs for cleanup of pollution that the University may have an obligation to remediate. The University has no additional disclosures resulting from this pronouncement.

On July 1, 2008, the University adopted GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments". This pronouncement includes provisions for the disclosure of the historical cost of land and real estate held by endowments. The University has no additional disclosures resulting from this pronouncement.

On July 1, 2009, the University adopted GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets". This pronouncement includes provisions that all intangible assets not specifically excluded by its scope be classified as capital assets. The University has no additional capital assets resulting from this pronouncement.

On July 1, 2009, the University adopted GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". This pronouncement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The University does not have

any derivative instruments within the scope of this standard.

### **Other Accounting Policies**

#### Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash and cash equivalents that are held with the intent to fund University operations are classified as current assets along with operating funds invested in the LGIP. Cash, cash equivalents, and investments that represent unspent bond proceeds or are held with the intent to fund capital projects are classified as noncurrent assets. Endowment investments are also classified as noncurrent assets. The University records all cash, cash equivalent, and investments at amortized cost, which approximates fair value.

The University combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated on a proportional basis. The internal investment pool is comprised of cash, cash equivalents and certificates of deposit.

#### Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from the Federal government, State and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are shown net of estimated uncollectible amounts.

#### Inventories

Inventories are carried at the lower of cost or market value.

#### Capital Assets

Land, buildings and equipment are recorded at cost or, if acquired by gift, at fair market value on the date of the gift. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Interest

expense incurred during capital construction is capitalized as part of the building cost. During fiscal 2010 and fiscal 2009, \$176,208 and \$0 in construction related interest was capitalized, respectively. Depreciation is computed using the straight line method over the estimated useful lives of the assets, generally 40 to 50 years for buildings, 20 to 25 years for infrastructure and land improvements, 15 years for library resources, and 5 to 7 years for equipment.

#### Bond Premiums/Discounts and Issuance Costs

Bond premiums/discounts and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. The remaining balances of bond premiums/discounts are presented in the Statements of Net Assets net of the face amount of bonds payable. Bond issuance costs are shown as other assets on the Statements of Net Assets.

#### Deferred Revenues

Deferred revenues occur when revenues have been collected in advance for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but relate to services to be provided in the following fiscal year.

#### Net Assets

The University's net assets are classified as follows:

##### *Invested in capital assets, net of related debt*

This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of capital assets but are included as a component of restricted expendable net assets described below.

##### *Restricted net assets, expendable*

Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

##### *Restricted net assets, nonexpendable*

Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

#### *Unrestricted net assets*

Unrestricted net assets represent resources derived from student tuition and fees, State appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet expenses. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

#### Classification of Revenues and Expenses

The University has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

#### *Operating revenues*

Operating revenues include activities that have the characteristics of exchange transactions such as: (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most Federal, State and local grants and contracts, and (4) interest on institutional student loans.

#### *Operating expenses*

Operating expenses are those costs incurred in daily operations, such as salaries and wages, benefits, scholarships and fellowships expenses, depreciation, utilities, and supplies.

#### *Nonoperating revenues*

Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as State appropriations, Federal Pell grant revenue and investment income. Included in State Appropriations are one time Federal Reinvestment and Recovery Act stimulus funds of \$8.9 million in fiscal 2010.

#### *Nonoperating expenses*

Nonoperating expenses include costs related to financing or investing activities such as interest on indebtedness.

#### *Other Revenues*

Other revenues include activities that have the characteristics of non-exchange transactions, such as state capital appropriations and gifts to endowments.

#### Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or nonoperating revenues in the University's financial Statements.

To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

#### Tax Exemption

The University is a tax-exempt instrumentality of the State of Washington organized under the provisions of Section 115(a) of the Internal Revenue Code and is exempt from Federal income taxes on related income.

#### Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

## **2. COMPONENT UNIT**

The Foundation presents information about its financial position and activities according to the following three classes of net assets, depending on the existence and nature of donor restrictions:

#### *Unrestricted net assets*

Support received that is not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control is classified as unrestricted.

#### *Temporarily restricted net assets*

Support received subject to donor-imposed use restrictions or time restrictions that will be met either through actions of the Foundation or by the passage of time is classified as temporarily restricted. In the period donor restrictions are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently restricted net assets*

Support received subject to donor-imposed restrictions stipulating that funds be invested in perpetuity is classified as permanently restricted. In accordance with purposes stipulated by the donors, earnings from such funds may be either unrestricted or temporarily restricted.

**3. CASH AND CASH EQUIVALENTS**

The University combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated to the departments on a proportional basis. The internal investment pool is comprised of cash and cash equivalents and investments.

Cash and cash equivalents include cash on hand, petty cash, change funds, bank balances, and funds held in the Local Government Investment Pool (LGIP).

Bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) or by a collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The LGIP is an unrated investment pool.

At June 30, 2010 and 2009, the carrying amount of cash and cash equivalents is \$57,129,793 and \$51,247,620 respectively. These balances include restricted cash and cash equivalents of \$6,044,593 and \$14,200,292 of unspent Housing and Dining System bond proceeds at June 30, 2010 and 2009 respectively. The carrying amount of cash and cash equivalents approximates the market value.

**4. INVESTMENTS**

Investments include internally pooled cash operating funds invested in certificates of deposit (CD's), renewal and replacement funds, unspent bond proceeds, and University endowment funds.

The certificates of deposit held in the internal investment pool are insured by the (FDIC) or by a collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The

University held \$18,650,063 and \$33,158,585 of certificates of deposits in pooled investments at June 30, 2010 and 2009, respectively.

The University separately invests the Housing and Dining System Renewal and Replacement funds. As of June 20, 2010 and 2009, the Renewal and Replacement funds of \$2,812,169 and \$2,780,142 were separately invested in CD's.

University endowment funds are invested under the direction of the Endowment Investment Committee. The committee is responsible for reviewing and recommending policy to define investment objectives and allowable investments, monitoring investment performances and social concerns and recommending investments, investment managers, and/or mutual funds.

Endowment funds are comprised of \$4,623,294 in donor restricted and \$3,377,967 in quasi endowments at June 30, 2010 and \$4,149,394 in donor restricted and \$2,370,412 in quasi endowments at June 30, 2009.

**Interest Rate Risk**

The University manages its exposure to fair values losses in the internal investment pool by employing a "laddered maturity" strategy, in which investments mature at varying times throughout the year.

Endowment funds are invested under Endowment Investment Policy guidelines. These guidelines include the primary objective of achieving long term growth using prudent investing practices, and do not limit investment maturities as a means to managing interest rate exposure.

**Concentration of Credit Risk**

Concentration of credit risk for investments is the risk of loss attributable to the magnitude of an investment in a single issuer. The University does not have a formal policy for managing concentration of credit risk in the internal investment pool. All investments in the pool are either insured through the FDIC or collateralized by assets held in a multiple financial institution collateral pool administered by the Washington PDPC.

The Endowment Investment Policy limits the endowment investments to no more than 5% of the portfolio for a single issuer.



At June 30, 2010, the University held the following in cash, cash equivalents and investments:

Description	Fair Value	Investment Maturities (in Years)				
		Less than 1	1-2	2-3	3-4	>4 years
WWU Investment Pool:						
Cash & Cash Equivalents	\$51,085,200	51,085,200				
Time Certificates of Deposits (CDs)	18,650,063	18,650,063				
WWU Endowment Funds:						
Mutual Funds - Money Market	1,011,589	1,011,589				
U.S. Government/Agency Securities	2,331,691		392,644	237,548	961,836	739,663
Equity Securities	4,657,981	n/a	n/a	n/a	n/a	n/a
Other Cash, Cash Equivalents, & Investments:						
Renewal and Replacement Time CDs	2,812,169	1,322,811	1,489,358			
Bond Proceeds Invested in LGIP	6,044,593	6,044,593				
Miscellaneous	<u>1,010</u>					1,010
<b>TOTAL CASH AND INVESTMENTS</b>	<b><u>\$86,594,296</u></b>					

At June 30, 2009, the University held the following in cash, cash equivalents and investments:

Description	Fair Value	Investment Maturities (in Years)				
		Less than 1	1-2	2-3	3-4	>4 years
WWU Investment Pool:						
Cash and Cash Equivalents	\$37,047,328	37,047,328				
Time Certificates of Deposits (CDs)	33,158,585	31,786,555	1,372,030			
WWU Endowment Funds:						
Mutual Funds - Money Market	914,546	914,546				
U.S. Government/Agency Securities	1,752,159		176,075	176,501	270,572	1,129,011
Equity Securities	3,853,101	n/a	n/a	n/a	n/a	n/a
Other Investments:						
Renewal and Replacement Time CDs	2,780,142	1,457,332	1,322,810			
Bond Proceeds Invested in LGIP	14,200,292	14,200,292				
Miscellaneous	<u>1,010</u>					1,010
<b>TOTAL CASH AND INVESTMENTS</b>	<b><u>\$93,707,163</u></b>					

## 5. FUNDS WITH STATE TREASURER

This account represents the University's share of net earnings of the State of Washington Normal School Permanent Fund and tuition distributions, reduced by expenditures for capital projects and debt service incurred over the years. The Normal School

Permanent Fund, established under RCW 43.79.160, is a permanent endowment fund. Earnings from the investment are either reinvested or used for the benefit of Central Washington University, Eastern

Washington University, Western Washington University, and The Evergreen State College.

The investing activities are the responsibility of the Washington State Treasurer's Office. The primary sources of new principal for the Normal School Permanent fund are revenues, primarily timber sales, from certain State lands. The State lands include 100,000 acres granted by the United States

government for state normal schools and are managed by the State Department of Natural Resources.

The University's earnings and distributions on the fund for the year ended June 30, 2010 and 2009 are \$4,014,907 and \$2,562,413, respectively which are reported as other capital revenue.

## 6. ACCOUNTS RECEIVABLE, NET

At June 30, 2010 and 2009, the major components of accounts receivable are as follows:

	<u>2010</u>	<u>2009</u>
Student tuition and fees	\$1,164,003	\$1,034,830
Federal, State and private grants and contracts	325,730	371,873
Auxiliary enterprises and other operating activities	<u>2,010,874</u>	<u>2,343,175</u>
Total accounts receivable	3,500,607	3,749,878
Less allowance for doubtful accounts	<u>(519,499)</u>	<u>(452,517)</u>
Accounts receivable, net	<u><u>\$2,981,108</u></u>	<u><u>\$3,297,361</u></u>

## 7. STUDENT LOANS RECEIVABLE, NET

At June 30, 2010 and 2009, student loans receivable are as follows:

	<u>2010</u>	<u>2009</u>
Federal Perkins student loans	\$8,518,653	\$8,456,365
Other long term loans	41,407	48,155
Institutional loans	<u>62,041</u>	<u>48,946</u>
Total student loans	8,622,101	8,553,466
Less allowance for doubtful accounts	<u>(929,923)</u>	<u>(932,576)</u>
Student loans receivable, net	<u><u>\$7,692,178</u></u>	<u><u>\$7,620,890</u></u>

**8. INVENTORIES**

At June 30, 2010 and 2009, inventories, stated at cost using various methods: retail, first-in, first-out (FIFO), or average cost, consist of the following:

Location	Valuation Method	2010	2009
Bookstore	Retail	\$710,393	\$966,976
Central Stores	Average Cost	138,134	123,361
Facilities Maintenance	FIFO	152,913	144,157
Lock Shop	FIFO	123,816	120,838
Other inventory	FIFO	<u>136,033</u>	<u>140,487</u>
Total inventory		<u>\$1,261,289</u>	<u>\$1,495,819</u>

**9. LAND AND CAPITAL ASSETS, NET**

The depreciation expense for the fiscal years ended June 30, 2010 and 2009 was \$16,336,531 and \$14,581,784, respectively. Following are the changes in land and capital assets for the year ended June 30, 2010:

	6/30/2009	Additions/ Transfers	Retirements	6/30/2010
Land	\$12,772,593	\$ -	\$ -	\$12,772,593
Capital Assets				
Infrastructure	\$53,656,654	\$ -	\$ -	\$53,656,654
Buildings	376,526,486	801,823	-	377,328,309
Furniture, fixtures and equipment	38,120,527	2,985,846	13,741,816	27,364,557
Library materials, art collection	48,788,816	2,121,019	-	50,909,835
Improvements	48,818,558	11,659,675	-	60,478,233
Construction in progress	15,241,879	27,638,343	-	42,880,222
Total capital assets	<u>581,152,920</u>	<u>45,206,706</u>	<u>13,741,816</u>	<u>612,617,810</u>
Less Accumulated Depreciation				
Infrastructure	20,700,230	1,378,460	-	22,078,690
Buildings	110,929,274	8,266,619	-	119,195,893
Furniture, fixtures and equipment	30,680,140	2,355,262	13,728,450	19,306,952
Library materials, art collection	34,830,452	1,646,960	-	36,477,412
Improvements	12,442,400	2,689,230	-	15,131,630
Total accumulated depreciation	<u>209,582,496</u>	<u>16,336,531</u>	<u>13,728,450</u>	<u>212,190,577</u>
Capital Assets, Net	<u>\$371,570,424</u>	<u>\$28,870,175</u>	<u>\$13,366</u>	<u>\$400,427,233</u>

Following are the changes in land and capital assets for the year ended June 30, 2009:

	6/30/2008	Additions/ Transfers	Retirements	6/30/2009
Land	\$12,772,593	\$ -	\$ -	\$12,772,593
<b>Capital Assets</b>				
Infrastructure	\$53,247,646	\$409,008	\$ -	\$53,656,654
Buildings	315,813,877	60,712,609	-	376,526,486
Furniture, fixtures and equipment	33,859,700	4,753,901	493,074	38,120,527
Library materials, art collection	46,662,184	2,126,632	-	48,788,816
Improvements	42,297,615	6,520,943	-	48,818,558
Construction in progress	61,231,873	(45,940,465)	49,529	15,241,879
<b>Total capital assets</b>	<b>553,112,895</b>	<b>28,582,628</b>	<b>542,603</b>	<b>581,152,920</b>
<b>Less Accumulated Depreciation</b>				
Infrastructure	19,323,379	1,376,851	-	20,700,230
Buildings	103,848,840	7,080,434	-	110,929,274
Furniture, fixtures and equipment	29,164,429	2,008,785	493,074	30,680,140
Library materials, art collection	32,953,311	1,877,141	-	34,830,452
Improvements	10,203,827	2,238,573	-	12,442,400
<b>Total accumulated depreciation</b>	<b>195,493,786</b>	<b>14,581,784</b>	<b>493,074</b>	<b>209,582,496</b>
<b>Capital Assets, Net</b>	<b>\$357,619,109</b>	<b>\$14,000,844</b>	<b>\$49,529</b>	<b>\$371,570,424</b>

## 10. ART COLLECTIONS

The University has several collections of art that it does not capitalize. The Outdoor Sculpture Collection is a public art collection displayed throughout the entire campus. There are also collections of 19<sup>th</sup> and 20<sup>th</sup> century prints and drawings, the Whittington Collection of Asian Ceramics, and the Chair Collection. These collections adhere to the University's policy to (a) maintain

them for public exhibition, education, or research; (b) protect, keep unencumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. The University's policy is to permit collections maintained in this manner to be charged to operations at the time of purchase rather than capitalized.

## 11. COMPENSATED ABSENCES

The accrued leave balance as of June 30, 2010 and 2009 is \$7,892,235 and \$7,891,789, respectively. This consists of unused vacation leave and compensatory time earned for exempt professionals and classified staff. It also includes a percentage of earned and unused sick leave for exempt professionals and classified staff. For reporting purposes, the entire balance of accrued leave is considered a current liability.

In 2004, the University began participating in the Voluntary Employees' Beneficiary Association Medical Expense Plan (VEBA-MEP). The plan is a post retirement medical expense reimbursement account available to professional staff employees of the University. The VEBA-MEP enables the University to deposit funds equivalent to the cash-out of compensable unused sick leave at retirement, tax free to a VEBA trust account on the employee's behalf. Funds deposited into a VEBA-MEP account, as well as

the earnings on the account, are not subject to federal income or social security taxes.

During fiscal 2010 and fiscal 2009, \$77,556 and \$49,782 respectively, was contributed to VEBA accounts by the University on behalf of employees.

**12. NOTES PAYABLE**

The University finances certain land and equipment purchases through certificates of participation issued by the Washington State Treasurer. The University's debt service requirements for these agreements for the next five years and thereafter are as follows:

Fiscal Year	Principal	Interest
2011	285,216	114,453
2012	243,207	103,665
2013	183,251	95,812
2014	192,630	89,233
2015	149,684	82,655
2016-2020	699,302	326,175
2021-2025	800,000	172,931
2026-2030	370,000	16,875
Total	2,923,290	<u>\$1,001,799</u>
Plus unamortized premium	<u>1,209</u>	
Total	<u>2,924,499</u>	

**13. BONDS PAYABLE**

Bonds payable consist of revenue bonds issued by the University for Housing and Dining System facilities and the Wade King Student Recreation Center. Bonds outstanding are shown on the following page.

Housing and Dining Revenue Bonds

As specified in Master Resolution 97-09, the Housing and Dining System Revenue Fund is used to pay operating expenses, principal and interest, fund debt service reserve accounts required in subsequent series resolutions, pay the renewal and replacement fund and, if desired, retire debt in the open market. Net revenues are pledged to equal at least 125% of debt service. The System has funded a reserve account for debt service, and maintains a renewal and replacement fund equal to at least 5% of outstanding bonds.

The Housing and Dining System has the following outstanding bond issues:

Series 2009 A and B Revenue Bonds with interest rates ranging from 3.0% to 7.4% and an aggregate

face value of \$14,280,000 at June 30, 2010, which is reported net of the original issue premium of \$20,417.

Series 2006 Revenue Bonds with an interest rate of 4% and an aggregate face value of \$8,280,000 at June 30, 2010, which is reported net of the original issue premium of \$40,338.

Series 2005 Revenue and Refunding Bonds with interest rates ranging from 3.375% to 4.50% and an aggregate face value of \$12,045,000 at June 30, 2010, which is reported net of the unamortized original discount and loss on defeasance of \$974,725.

Series 2003 Revenue and Refunding Bonds with interest rates ranging from 3.30% to 4.65% and an aggregate face value of \$11,505,000 at June 30, 2010, which is reported net of the unamortized original issue discount and loss on defeasance of \$146,118.

Series 1999 Junior Lien Revenue Bonds with interest rates ranging from 5.2% to 6.0% and an aggregate

face value of \$0 at June 30, 2010, which is reported net of the unamortized original issue discount of \$0.

Series 1998 Junior Lien Revenue and Refunding Bonds with interest rates ranging from 4.4% to 5.5% and an aggregate face value of \$12,325,000 at June 30, 2010, which is reported net of the unamortized original issue premium of and loss on defeasance of \$320,882.

Wade King Student Recreation Center Revenue and Refunding Bonds

The Recreation Center issued the Revenue Bonds Series, 2002, in February 2002. The bonds bear interest at rates of 4% to 5% and have an aggregate face value of \$24,850,000 at June 30, 2010, which is reported net of the unamortized original issue discount and loss on defeasance of \$322,723.

Advance Refunding

The scheduled liabilities as of June 30, 2010 and 2009 do not include \$11,165,000 of Housing and Dining System revenue bonds which were advance refunded in October 1991 and May 2005.

In May 2004, the Wade King Student Recreation Center defeased \$945,000 of revenue bonds. The outstanding balances are \$810,000 and \$830,000 at June 30, 2010 and 2009, respectively.

Government obligations in amounts, maturities and bearing interest rates sufficient to fund retirement of these bonds are held in irrevocable trusts. Neither the assets of the trusts, nor their outstanding obligations, are included in the accompanying balance sheets.

The debt service requirements for the revenue/refunding bonds for the next five years and thereafter are as follows:

Fiscal Year	Housing and Dining Revenue and Refunding Bonds		Student Recreation Center Revenue Bonds	
	Principal	Interest	Principal	Interest
2011	2,580,000	2,885,173	615,000	1,225,888
2012	2,680,000	2,783,678	640,000	1,199,750
2013	2,785,000	2,676,711	670,000	1,172,230
2014	2,895,000	2,563,847	700,000	1,142,750
2015	3,025,000	2,443,432	725,000	1,111,250
2016-2020	17,225,000	10,004,227	4,230,000	4,972,500
2021-2025	17,180,000	5,643,852	5,385,000	3,805,500
2026-2030	5,910,000	2,542,945	6,880,000	2,316,750
2031-2034	4,155,000	786,990	5,005,000	508,500
Total	\$58,435,000	\$32,330,855	24,850,000	\$17,455,118
Unamortized premium/(discount)	48,051		(268,861)	
Less unamortized loss on defeasance	(1,429,021)		(53,862)	
Total	\$57,054,030		24,527,277	

**14. PLEDGED REVENUES**

The University has pledged certain revenues, net of specified operating expenses, to repay the principal and interest of revenue bonds. The following is a schedule of the pledged revenues and related debt:

Source of Revenue Pledged	Total Future Revenues Pledged *	Description of Debt	Purpose of Debt	Term of Commitment	Proportion of Debt Service to Pledged Revenues (current yr)
Housing and Dining revenues, net of operating expenses	\$90,765,855	Housing and Dining bonds issued in 1998, 1999, 2003, 2005, 2006, 2009	Construction and renovation of student housing projects	2034	84.8%
Student Recreation Center gross revenues	\$42,305,118	Student Recreation Center bonds issued in 2002	Construction of the Student Recreation Center	2033	42.6%

\* Total future principal and interest payments on debt

**15. LONG TERM LIABILITIES**

Following are the changes in long term liabilities for the years ended June 30, 2010 and 2009:

	<u>6/30/2009</u>	<u>Additions/ Amortization</u>	<u>Retirements</u>	<u>6/30/2010</u>	<u>Current Portion</u>
Bonds and notes payable					
Revenue and refunding bonds	\$84,210,207	\$176,100	\$2,805,000	\$81,581,307	\$3,195,000
Notes payable	3,038,959	150,000	264,460	2,924,499	285,216
Net pension obligation	<u>2,031,738</u>	<u>1,053,000</u>	<u>129,874</u>	<u>2,954,864</u>	<u>195,000</u>
Total long term liabilities	<u>\$89,280,904</u>	<u>\$1,379,100</u>	<u>\$3,199,334</u>	<u>\$87,460,670</u>	<u>\$3,675,216</u>
	<u>6/30/2008</u>	<u>Additions/ Amortization</u>	<u>Retirements</u>	<u>6/30/2009</u>	<u>Current Portion</u>
Bonds and notes payable					
Revenue and refunding bonds	\$72,426,887	\$14,483,320	\$2,700,000	\$84,210,207	\$2,805,000
Notes payable	3,207,911	88,651	257,603	3,038,959	264,333
Net pension obligation	<u>1,068,510</u>	<u>1,053,000</u>	<u>89,772</u>	<u>2,031,738</u>	<u>195,000</u>
Total long term liabilities	<u>\$76,703,308</u>	<u>\$15,624,971</u>	<u>\$3,047,375</u>	<u>\$89,280,904</u>	<u>\$3,264,333</u>

**16. LEASES**

The University finances certain equipment through non-cancelable operating leases. At June 30, 2010, future payments under these operating leases are as follows:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2011	\$ 1,483,249
2012	562,522
2013	347,701
2014	294,695
2015	158,901
2016 - 2028	<u>299,062</u>
Total minimum lease payments	<u>\$ 3,146,130</u>

**17. DEFERRED COMPENSATION**

The University, through the State of Washington, offers its employees a Deferred Compensation Plan created under Internal Revenue Code Section 457.

The plan, available to all State employees, permits individuals to defer a portion of their salary until future years. The State of Washington administers the plan on behalf of the University's employees; the University does not have legal access to the funds.

**18. OPERATING EXPENSES BY FUNCTIONAL CATEGORIES**

In the Statement of Revenues, Expenses and Changes in Net Assets, operating expenses are displayed by natural classifications which include salaries, employee benefits, goods and services, and other similar categories.

Operating expenses by functional classification for the years ended June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Instruction	\$87,127,977	\$86,764,924
Research	5,066,585	4,736,643
Academic support	11,295,613	11,822,416
Student services	16,162,863	15,787,601
Institutional support	19,415,907	19,008,185
Operation and maintenance of plant	38,718,526	37,545,597
Scholarships and other student aid	17,544,179	14,585,348
Auxiliary enterprise expenditures	<u>42,357,810</u>	<u>42,310,541</u>
Total operating expenses	<u>\$237,689,460</u>	<u>\$232,561,255</u>



**19. PENSION PLANS**

The University offers four contributory pension plans: the Washington State Public Employees' Retirement System (PERS) plan, the Washington State Teachers Retirement System (TRS), and the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) and the Western Washington University Retirement Plan (WWURP).

The payroll for the University employees covered by PERS for the year ended June 30, 2010 and 2009 is \$34,382,460 and \$35,274,807; the payroll for employees covered by TRS is \$1,096,647 and \$1,140,745; the payroll covered by WWURP is \$72,402,864 and \$73,205,253; the payroll for LEOFF is \$654,234 and \$745,017, respectively.

Western Washington University Retirement Plan (WWURP)

*Plan Description*

The Western Washington University Retirement Plan (WWURP) is a defined contribution pension plan with a supplemental payment, when required. The

WWURP plan covers faculty, professional staff, and certain other employees. It is administered by the University. The University's Board of Trustees is authorized to establish and amend benefit provisions.

Contributions to the plan are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have at all times a 100% vested interest in their accumulations.

*Funding Policy*

Employee contribution rates, which are based on age, range from 5% to 10% of salary. The University matches the employee contributions. All required employer and employee contributions have been made.

The WWURP contributions for the years ending June 30, 2010, and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Employee	\$5,598,912	\$5,535,103
University	5,595,963	5,530,958

Supplemental Component

The supplemental payment plan determines a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date.

The University makes direct payments to qualified retirees when the retirement benefit provided by the fund sponsor does not meet the benefit goal.

The University received an actuarial evaluation of the supplemental component of the WWURP during fiscal 2009. The previous evaluation was performed in 2007. The Unfunded Actuarial Accrued Liability (UAL) calculated as of June 30, 2009 and 2007 was \$7,287,000 and \$4,120,000, respectively, and is amortized over a 14.5 year period. An updated

actuarial evaluation was not performed for fiscal 2010.

The Annual Required Contribution (ARC) of \$1,053,000 consists of amortization of the UAL (\$554,000), normal cost (or current cost) (\$473,000) and interest. The UAL and ARC were established using the entry age normal cost method.

The actuarial assumptions included an investment rate of return of 6% to 8% and projected salary increases ranging from 2% to 4%. Approximately \$72,402,684 and \$73,205,253 of the University's payroll was covered under this plan during fiscal 2010 and fiscal 2009, respectively.

The following table reflects the activity in the Net Pension Obligation for the year ended June 30, 2010:

Balance as of June 30, 2008	\$1,068,510
Annual Required Contribution FY 09	1,053,000
Payments to Beneficiaries FY 09	<u>(89,772)</u>
Balance as of June 30, 2009	2,031,738
Annual Required Contribution FY 10	1,053,000
Payments to Beneficiaries FY 10	<u>(129,874)</u>
Balance as of June 30, 2010	<u>\$2,954,864</u>

### PERS, TRS and LEOFF

#### *Plan Description*

The University contributes to PERS, TRS and LEOFF cost sharing multiple-employer defined benefit pension plans administered by the State of Washington Retirement System.

PERS I provides retirement and disability benefits, and minimum benefit increases beginning at age 66 to eligible non academic plan members hired prior to October 1, 1977. PERS II and III provide retirement and disability benefits, and a cost-of-living allowance, to eligible non academic plan members hired on or after October 1, 1977. In addition, PERS III has a defined contribution component, which is fully funded by employee contributions. PERS defined benefit plan benefits are vested after an employee completes five years of eligible service.

TRS I provides retirement and disability benefits, a lump sum death benefit, and minimum benefits increases beginning at age 65 to certain eligible faculty hired prior to October 1, 1977. TRS II and III provide retirement benefits, and cost-of-living allowance to certain eligible faculty hired on or after October 1, 1977.

In addition TRS III has a defined contribution component which is fully funded by employee contributions. Defined benefit plan benefits are vested after an employee completes five years of eligible service.

LEOFF II provides retirement benefits and a cost of living allowance for eligible law enforcement officers. LEOFF System benefits are vested after an employee completes five years of eligible service.

The Washington State Legislature establishes or amends benefit provisions for PERS, TRS, and LEOFF. Additional information concerning plan descriptions and benefit provisions is included in a Comprehensive Annual Financial Report publicly available from the Washington System Department of Retirement System, P.O. Box 48380, Olympia, WA, 98504.

#### *Funding Policy*

Each biennium, the Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required employee and/or employer contribution rates for PERS, TRS, and LEOFF plans, except where employee contribution rates are set by statute. All employers are required to contribute at the level established by State law.

The required contribution rates expressed as a percentage of current year covered payroll at June 30, 2010 follow:

	<u>Employee</u>	<u>University</u>
PERS		
Plan I	6.00%	5.31%
Plan II	3.90%	5.31%
Plan III	5-15%	5.31%
TRS		
Plan I	6.00%	6.53%
Plan II	3.51%	6.53%
Plan III	5-15%	6.53%
LEOFF		
Plan II	8.46%	5.24%

The required contributions for the years ending June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
PERS		
Employee	\$1,518,542	\$1,967,277
University	1,794,471	2,886,087
TRS		
Employee	32,253	32,195
University	32,890	42,344
LEOFF		
Employee	55,337	65,785
University	56,384	66,977

All required employer and employee contributions have been made.

## **20. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

Health care and life insurance programs for employees of the State of Washington are administered by the Washington State Health Care Authority (HCA). The HCA calculates the premium amounts each year that are sufficient to fund the State-wide health and life insurance programs on a pay-as-you-go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employees.

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors.

The health care premiums for active employees, which are paid by the agency during employees' working careers, subsidize the "underpayments" of the retirees. An additional factor in the OPEB obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit subsidy"). For fiscal 2010, this amount was \$183 per retiree eligible for parts A and B of Medicare, per month. This is also passed through to State agencies via active employees rates charged to the agency.

There is no formal State or University plan that underlies the subsidy of retiree health and life insurance. An actuarial study performed by the Washington Office of the State Actuary calculated the

total OPEB obligation of the State of Washington at July 1, 2010.

The Actuary calculated the OPEB obligation based on individual state employee data, including age, retirement eligibility, and length of service. The probability of an employee of a given age and length of service retiring and receiving OPEB benefits is based on statewide historical data. Since sufficient

specific employee data and other actuarial data are not available at levels below the statewide level, such amounts have not been determined nor recorded in the University's financial statements.

The University was billed and paid approximately \$16.6 million for active and retiree health care expenses during fiscal 2010 and \$14.3 million in fiscal 2009.

## 21. RISK MANAGEMENT

The University participates in a State of Washington risk management self-insurance program. Premiums to the State are based on actuarially determined projections and include allowances for payments of both outstanding and current liabilities. The University self-insures unemployment compensation for all employees.

In addition, sufficient insurance coverage for property casualty loss on the residence halls and the Wade King Student Recreation Center is maintained in accordance with the Housing and Dining System and Wade King Student Recreation Center Master Bond Resolutions.

The University has been named in several lawsuits. While the final outcome of the lawsuits cannot be predicted with certainty, it is the University's opinion that the ultimate liability will not materially affect the financial statements.

The University participates in the State insurance program and is indemnified and will be reimbursed by the State for any claims paid related to these lawsuits.

## 22. COMMITMENTS

Goods and services for operating and capital projects, contracted for but not yet received, are considered commitments at year end. The amount of these commitments at June 30, 2010 and 2009 are:

	<u>2010</u>	<u>2009</u>
Operating	\$4,599,505	\$2,761,520
Research	359,320	801,395
Capital projects	<u>33,577,523</u>	<u>9,915,760</u>
Total commitments	<u>\$38,536,348</u>	<u>\$13,478,675</u>

## 23. JOINT VENTURE

In fiscal 2010, the University participated in the formation of a not-for-profit corporation titled Western Crossing Development Corporation (WCDC). WCDC was formally incorporated pursuant to the articles of incorporation dated October 7, 2009 and is a 501(c) (3) corporation under the Internal Revenue code of 1986, amended. The five member Board of Directors includes a member of the University Board of Trustees appointed by the University Board of Trustees, the President of the University, a member of the Commission of the Port of Bellingham appointed by

the Commission of the Port, the Executive Director of the Port of Bellingham, and a fifth board member who was appointed by a majority vote of the other four board members who is not affiliated with either entity. The board of directors may in the future allow other Washington governments or educational institutions to become members under such terms and conditions as they determine. The purpose of the joint venture is to help facilitate the timely development of new facilities on the Bellingham waterfront. This investment is not reflected on the University's Statement of Net Assets.